

September 2005



North Dakota REV-E-NEWS

**From Pam Sharp, Director
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State tax revenues during the 2003-05 biennium exceeded the most optimistic projections. The 2005-07 biennium has just begun, but after only two months, actual collections already exceed the forecast by over \$18.2 million, or 13.4 percent.

State Bond Rating Raised by Standard and Poor's

As a result of the state's strong and stable economic performance, coupled with a history of conservative and prudent management of the state's finances, Standard & Poor's has raised the state's credit rating. The improved credit rating will be reflected in lower costs for the state to borrow money through the issuance of bonds. Bonds are issued by the state to finance major capital and infrastructure projects that provide long-term benefits to the citizens of North Dakota.

Standard & Poor's reports that credit factors considered for the upgrade in the state's credit rating include:

- "a steadily growing economy supported by consistent employment and income growth and recent population growth,"
- "the state's remarkable stability through the last and previous economic downturns, and"

- "the statutorily driven \$100 million contribution to the budget stabilization fund at the end of fiscal 2005."

Additional factors include:

- "the state's long history of strong financial operations with unreserved general fund balances maintained in excess of 10%,"
- "the benefit of [the] state-owned Bank of North Dakota...; and"
- "low debt levels coupled with rapid amortization [of existing debt]."

Standard & Poor's also noted that "the state is recording some of its best growth in recent years." The diversification of the state's economy and growth in the gross state product were also considered. Other positive economic factors include the low unemployment rate, high education level of the state's residents, and stable economic outlook.

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Oil Activity

Oil production in July rose significantly from the June level of just over 95,000 barrels per day to nearly 98,000 barrels per day. Drilling permit activity remained strong with 21 permits issued in July. The average price for North Dakota crude continues well above forecasted prices. Current prices are over \$60 per barrel; July prices av-

eraged over \$53 per barrel and June prices averaged just over \$51 per barrel. The current rig count is 32, seven more rigs than were operating one year ago.



STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2005-07 BIENNIUM
August 2005

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|-------------------------------------|------------------------------------|-------------------|------------------|----------------|------------------------------------|--------------------|-------------------|----------------|
| | March 2005 <u>Leg. Forecast</u> | <u>Actual</u> | <u>Variance</u> | <u>Percent</u> | March 2005 <u>Leg. Forecast</u> | <u>Actual</u> | <u>Variance</u> | <u>Percent</u> |
| Sales Tax | 39,286,000 | 40,641,317 | 1,355,317 | 3.4% | 59,028,000 | 65,538,550 | 6,510,550 | 11.0% |
| Motor Vehicle Excise Tax | 6,065,000 | 6,488,054 | 423,054 | 7.0% | 11,279,000 | 12,143,179 | 864,179 | 7.7% |
| Individual Income Tax | 21,255,000 | 24,453,729 | 3,198,729 | 15.0% | 37,152,000 | 41,323,054 | 4,171,054 | 11.2% |
| Corporate Income Tax | | 199,638 | 199,638 | 100.0% | - | 302,984 | 302,984 | 100.0% |
| Insurance Premium Tax | 2,000,000 | 2,019,584 | 19,584 | 1.0% | 2,000,000 | 2,019,584 | 19,584 | 1.0% |
| Financial Institutions Tax | | 983 | 983 | 100.0% | - | 1,436 | 1,436 | 100.0% |
| Oil & Gas Production Tax | 1,903,000 | 3,501,969 | 1,598,969 | 84.0% | 5,728,000 | 9,706,747 | 3,978,747 | 69.5% |
| Gaming Tax | 1,500,000 | 2,200,826 | 700,826 | 46.7% | 1,800,000 | 2,197,480 | 397,480 | 22.1% |
| Lottery | | | | | - | - | | |
| Interest Income | 282,000 | 541,546 | 259,546 | 92.0% | 364,000 | 866,088 | 502,088 | 137.9% |
| Oil Extraction Tax | 2,516,000 | 3,252,095 | 736,095 | 29.3% | 5,063,000 | 6,066,183 | 1,003,183 | 19.8% |
| Cigarette & Tobacco Tax | 1,740,000 | 1,737,278 | (2,722) | -0.2% | 3,404,000 | 3,603,877 | 199,877 | 5.9% |
| Departmental Collections | 1,989,000 | 1,366,926 | (622,074) | -31.3% | 2,939,000 | 2,369,539 | (569,461) | -19.4% |
| Wholesale Liquor Tax | 522,000 | 549,722 | 27,722 | 5.3% | 1,095,000 | 1,165,284 | 70,284 | 6.4% |
| Coal Conversion Tax | 2,149,000 | 2,186,412 | 37,412 | 1.7% | 4,227,000 | 4,158,252 | (68,748) | -1.6% |
| Mineral Leasing Fees | 500,000 | 940,799 | 440,799 | 88.2% | 1,000,000 | 1,726,649 | 726,649 | 72.7% |
| Bank of North Dakota-Transfer | | | | | | | | |
| State Mill & Elevator-Transfer | | | | | | | | |
| Gas Tax Admin-Transfer | | | | | 175,000 | 175,000 | - | 0.0% |
| Other Transfers | | 72,430 | 72,430 | 100.0% | - | 74,930 | 74,930 | 100.0% |
| Total Revenues and Transfers | 81,707,000 | 90,153,309 | 8,446,309 | 10.3% | 135,254,000 | 153,438,817 | 18,184,817 | 13.4% |

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2005-07 BIENNIUM
August 2005

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|-------------------------------------|-------------------|-------------------|-------------------|--------------|--------------------|--------------------|---------------------|--------------|
| | August 2003 | August 2005 | Variance | Percent | 2003-05 | 2005-07 | Variance | Percent |
| Sales Tax | 27,534,599 | 40,641,317 | 13,106,718 | 47.6% | 52,963,749 | 65,538,550 | 12,574,801 | 23.7% |
| Motor Vehicle Excise Tax | 5,798,023 | 6,488,054 | 690,030 | 11.9% | 11,261,229 | 12,153,179 | 891,950 | 7.9% |
| Individual Income Tax | 14,031,688 | 24,453,729 | 10,422,040 | 74.3% | 35,504,584 | 41,323,054 | 5,818,470 | 16.4% |
| Corporate Income Tax | 43,310 | 199,638 | 156,328 | 360.9% | 92,392 | 302,984 | 210,592 | 227.9% |
| Insurance Premium Tax | 1,974,419 | 2,019,584 | 45,165 | 2.3% | 1,974,419 | 2,019,584 | 45,165 | 2.3% |
| Financial Insitutions Tax | 750 | 983 | 233 | 31.1% | 70,643 | 1,436 | (69,207) | -98.0% |
| Oil & Gas Production Tax | 1,571,999 | 3,501,969 | 1,929,970 | 122.8% | 4,536,411 | 9,706,747 | 5,170,336 | 114.0% |
| Gaming Tax | 2,962,679 | 2,200,826 | (761,853) | -25.7% | 3,122,211 | 2,197,480 | (924,731) | -29.6% |
| Lottery | | | | | - | - | | |
| Interest Income | 85,151 | 541,546 | 456,395 | 536.0% | 127,859 | 866,088 | 738,229 | 577.4% |
| Oil Extraction Tax | 1,107,711 | 3,252,095 | 2,144,385 | 193.6% | 2,462,688 | 6,066,183 | 3,603,495 | 146.3% |
| Cigarette & Tobacco Tax | 1,546,980 | 1,737,278 | 190,298 | 12.3% | 3,229,718 | 3,603,877 | 374,159 | 11.6% |
| Departmental Collections | 1,949,916 | 1,366,926 | (582,990) | -29.9% | 32,621,987 | 2,369,539 | (30,252,448) | -92.7% |
| Wholesale Liquor Tax | 503,459 | 549,722 | 46,262 | 9.2% | 1,099,727 | 1,165,284 | 65,558 | 6.0% |
| Coal Conversion Tax | 2,153,028 | 2,186,412 | 33,385 | 1.6% | 4,161,200 | 4,158,252 | (2,948) | -0.1% |
| Mineral Leasing Fees | 387,067 | 940,799 | 553,732 | 143.1% | 785,899 | 1,726,649 | 940,750 | 119.7% |
| Bank of North Dakota-Transfer | | | | | - | - | | |
| State Mill & Elevator-Transfer | | | | | - | - | | |
| Gas Tax Admin-Transfer | | | | | 174,525 | 175,000 | 475 | 0.3% |
| Other Transfers | 11,922,291 | 72,430 | (11,849,861) | -99.4% | 11,922,291 | 74,930 | (11,847,361) | -99.4% |
| Total Revenues and Transfers | 73,573,072 | 90,153,309 | 16,580,237 | 22.5% | 166,111,533 | 153,448,817 | (12,662,716) | -7.6% |

Revenue Variances

Actual revenues exceeded the March 2005 legislative revenue forecast by \$8.4 million, or 10.3 percent.

Sales and use taxes exceeded the forecast by \$1.4 million, or 3.4 percent.

Motor vehicle taxes exceeded the forecast by \$423,000, or 7.0 percent.

Due primarily to increases in income tax withholding, which is reflective of both employment and income growth, individual income tax collections exceeded the forecast by \$3.2 million, or 15.0 percent.

Oil taxes, driven by higher than anticipated oil prices, significantly exceeded the forecast. Production taxes exceeded the forecast by \$1.6 million, or 84.0 percent. Extraction taxes exceeded the forecast by \$736,000, or 29.3 percent.

Departmental collections, which vary significantly month to month, fell short of projections by over \$600,000. This is likely a timing issue which will be corrected as the biennium progresses.

Mineral leasing fees driven by increased oil field activity and demand, exceeded projections by over \$440,000, or 88.2 percent.

Comments or Questions?

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